

# Unemployment Insurance

## **Solvency and MES Act Reform**

### *Overview*

### ***Presentation to the House Committee on Commerce***

***November 29, 2011***

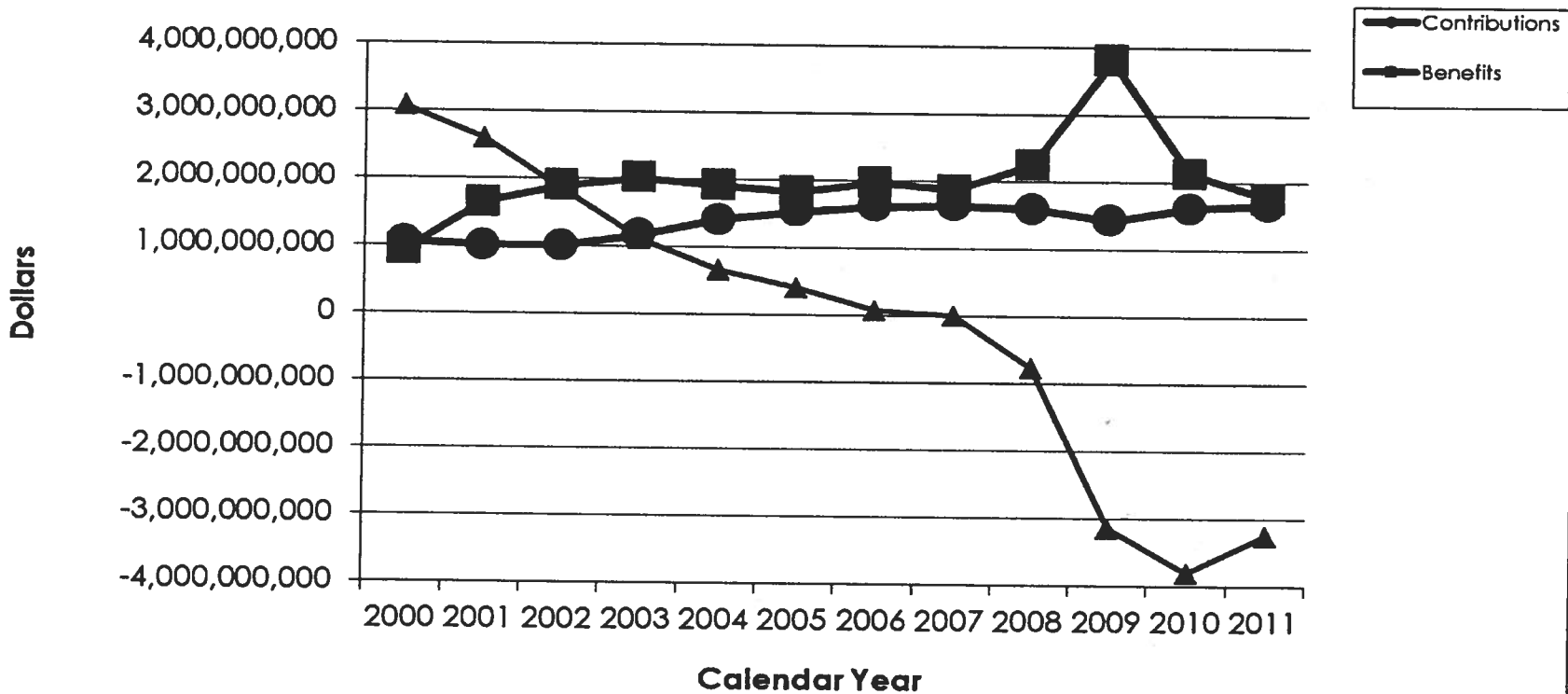
# The Present Situation

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- Michigan's UI debt to federal government is approx \$3.2 billion
- On September 30, 2011, Michigan paid \$106 million in interest
  - \$38.25 from GF/GP due to shortfall in solvency tax—unprecedented
- Interest in 2012 will approach \$136 million
  - GF/GP must be repaid (MES Act)
  - Solvency tax shortfall again—\$117 in unfunded interest
- Approximate \$250 million in unfunded interest 2012—2017 at 4 % rate
- FUTA credit reduction continues and will continue
  - Approximately \$200 million in employer penalties in 2012, \$271 million in 2013, \$345 in 2014...until principal is repaid 2018-2019
- Potential that additional federal penalties could be enacted in 2013 to expedite repayment (3.33% penalty provision)
- Federal penalties on employers now take over to resolve the debt

## How We Got Here

### Comparison of Benefits Paid to Contributions Received



## If Nothing is Done

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- “Potential” UI debt resolution in 2018-2019 depending on growth of the economy and other factors
- Employers subject to escalating penalties
- Continued borrowing
- Unfunded interest causing a GF/GP risk every year or requiring an expansion of the solvency tax
- Does not address solvency and building of a healthy trust fund
- Creates a very unstable and uncertain future for the Unemployment Insurance System

## Senate Bills 483 and 484

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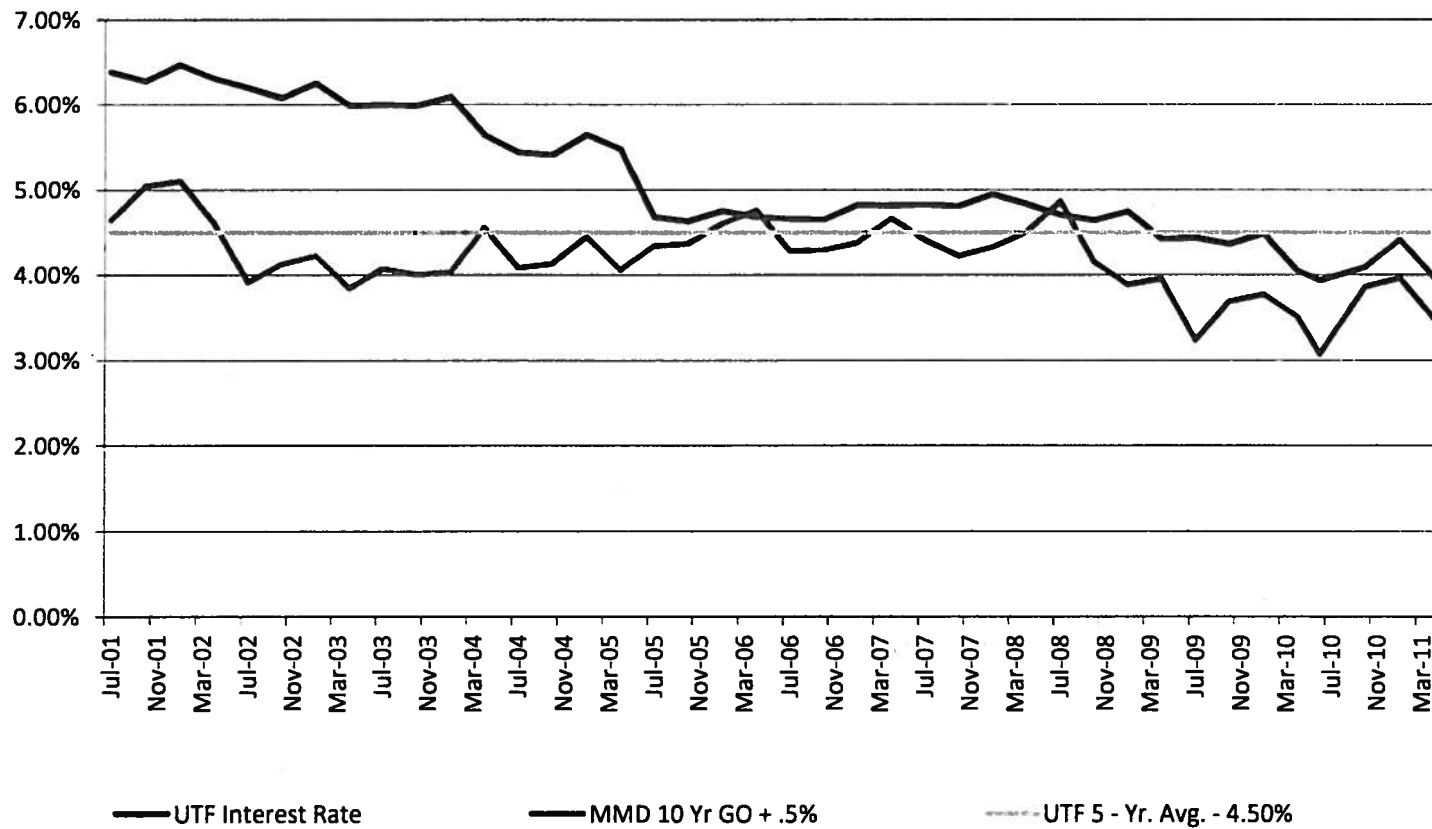
SB 483: Authorizes the issuance of debt

- bond proceeds extinguish the federal liability
- allows for repayment of borrowed GF/GP (2011 interest)
- bonds issued through Michigan Finance Authority
- designated source revenue bonds not a general obligation

SB 484: Obligation Assessment

- Director of LARA to request MFA to issue bonds
- State Treasurer and Director of LARA determine obligation assessment collected from employers on quarterly basis
- creates a separate trust fund in Treasury to hold obligation assessments

# Interest Rate Advantage of Bonding



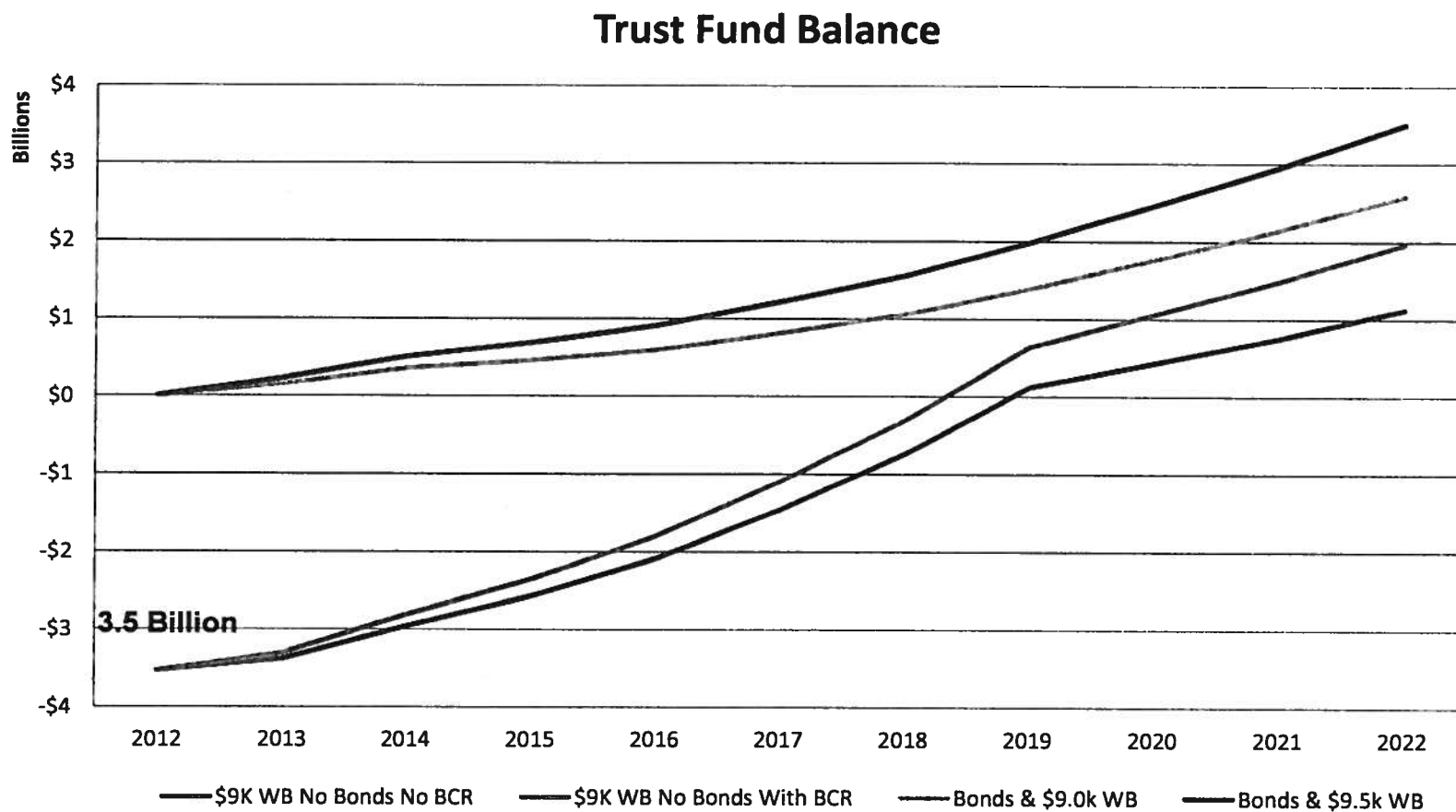
## Debit Service Comparison

	<u>TE Bonding</u>		<u>Non-Bonding</u>	
	2018 Final (2.68%)	Current 2020 Final (3.09%)	from 3.00% up to 4.50% (4.07% Ave)	5 year Average (4.50%)
2012	383,609,918	282,613,517	424,335,193	430,811,113
2013	576,298,371	473,525,239	611,487,259	620,824,300
2014	579,180,356	475,896,409	614,545,826	623,925,238
2015	582,074,625	478,276,000	617,621,388	627,046,775
2016	584,983,875	480,674,875	620,704,568	630,181,375
2017	587,907,500	483,072,125	623,809,158	633,329,025
2018	615,149,250	485,484,125	626,927,116	636,497,463
2019	-	457,422,125	-	-
2020		470,478,375		
Totals	3,909,203,895	4,087,442,791	4,139,430,507	4,202,615,288
Savings at 4.07% (PV)		(45,775,158)	(174,141,814)	(228,044,316)

- The PV savings achieved by refinancing the federal liability (\$3.5 billion) via tax exempt bonds is the estimated present value of the difference between the debt service at various interest rates.

# Bonding and Increasing the Taxable Wage Base

## Immediate Solvency and UTF Growth





# MES Act Revisions

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## SB 806 Revenue

- Increase the taxable wage base from \$9,000 to \$9,500 in 2012  
--Maximum weekly benefit of \$362 remains unchanged and no change to the method of calculating benefits
  - Change 5-year experience rating period to 3-years with phase-in starting in 2012 a significant economic development policy
  - Targets a sustained UTF balance of \$2.5 billion and adjusts the TWB based on maintaining that balance, net of benefits
- Taxable wage base increase= \$85 million in new revenue per year

## SB 806 Reform

- Creates amnesty program for employers who agree to reclassify employees from disputed independent contractor status
- Allows amnesty program for claimants that owe agency restitution
- Resolves the “underemployment” issue and removes charges from the non-separating employer

## MES Act Revisions....cont

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- Allows small business (<25 employees) to spread UI payments over a calendar year
- Allows greater flexibility in seasonal employer designations targeting our tourism industry
- Changes definition of “suitable work” requirement to include jobs outside of a claimants experience if the work pays 120 percent of their WBA

### SB 806 System Integrity

- Sets dates when all employers must have an electronic account with the agency
- Extends willful violation penalties to officers, directors and controlling entities
- Increase fines on employers for continued untimely wage reports

## MES Act Revisions...cont

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- Allows Agency to pursue administrative garnishment for restitution and increase future benefit withholding levels
- Makes UIA fraud a felony at a level of \$3,500
- Creates an auditable system for tracking statutorily required “seeking work” activities
- Clarifies Act as it relates to benefit disqualifications in the areas of:
  - theft from an employer
  - voluntary quits
  - negligently losing a job qualification
  - falsification of wage claims/wage claim proof
  - work-place drug use
  - chronic and unreported absenteeism
- Allows Agency to share information with law enforcement agencies in criminal investigations involving fraud